

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

Meridian Citizens Mutual Insurance Company)
PO Box 1980)
Indianapolis, Indiana 46206-1980)

Examination of Meridian Citizens Mutual Insurance
Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Meridian Citizens Mutual Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 5, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Meridian Citizens Mutual Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

March 31, 2010
Date

Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 1814

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Meridian Citizens Mutual Insurance Company)
PO Box 1980)
Indianapolis, Indiana 46206-1980)

Examination of Meridian Citizens Mutual Insurance
Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Meridian Citizens Mutual Insurance Company (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on March 5, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 5, 2010 and was received by the Company on March 11, 2010.


The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Meridian Citizens Mutual Insurance Company as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Meridian Citizens Mutual Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.



Signed and Sealed this 31st day of
March, 2010.

Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

MERIDIAN CITIZENS MUTUAL INSURANCE COMPANY
NAIC Co. CODE 10502

As of

December 31, 2008

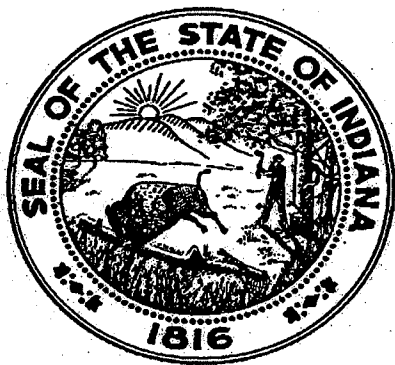


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

CAROL CUTTER, Commissioner

March 5, 2010

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Mary Jo Hudson
Secretary of the Midwestern Zone, NAIC
Director, Ohio Department of Insurance
50 West Town Street
Third Floor, Suite 300
Columbus, Ohio 43215

Honorable Paulette J. Thabault
Secretary of the Northeastern Zone, NAIC
Commissioner, Vermont Insurance Division
Department of Banking, Insurance, Securities and Health Care
89 Main Street
Montpelier, Vermont 05620

Honorable Carol Cutter
Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners and Director:

Pursuant to the authority vested in Appointment Number 3586, an examination has been made of the affairs and financial condition of:

Meridian Citizens Mutual Insurance Company
2955 North Meridian Street
Indianapolis, IN 46208

hereinafter referred to as the "Company," an Indiana mutual property and casualty insurance company. The examination was conducted at the State Auto offices in Indianapolis, Indiana and Columbus, Ohio.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of Noble Consulting Services, Inc. (Noble) as of December 31, 2003. This risk focused examination covered the period from January 1, 2004 through December 31, 2008. The risk focused examination included a review of any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a coordinated risk focused examination in which the State of Ohio was designated as the lead state. Examiners from the states of Ohio, Indiana, Connecticut, South Dakota, Iowa, and Wisconsin participated in the examination which included the following affiliated property and casualty companies known collectively as the State Auto Group:

- State Automobile Mutual Insurance Company
- State Auto Property & Casualty Insurance Company
- Milbank Insurance Company
- Farmers Casualty Insurance Company
- State Auto Insurance Company of Ohio
- State Auto Insurance Company of Wisconsin
- State Auto Florida Insurance Company
- Beacon National Insurance Company
- Beacon Lloyds Insurance Company
- State Auto National Insurance Company
- Litchfield Mutual Fire Insurance Company
- Patrons Mutual Insurance Company of Connecticut
- Meridian Citizens Mutual Insurance Company
- Meridian Security Insurance Company

In conducting the risk focused examination, the Indiana Department of Insurance (IDOI), by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Ernst & Young (E&Y) for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Mary D. Miller, FCAS, MAAA, an actuary with the Ohio Department of Insurance, performed the actuarial review of the Company's reserves as of December 31, 2008.

The risk focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition.

HISTORY

The Company was incorporated as Citizens Fund Mutual Fire Insurance Company, under the laws of the State of Minnesota on March 20, 1914, and commenced business on February 1, 1915. On September 1, 1963, the Company merged with Security Mutual Fire Insurance Company and became Citizens Security Mutual Insurance Company. By 1982, the Company had merged with three other mutual companies.

In 1996, the Company became affiliated with Meridian Insurance Group, Inc. (MIGI), a downstream holding company of Meridian Mutual Insurance Company (Meridian Mutual), and the Company became a participant in a reinsurance pooling agreement headed by Meridian Mutual. In 1998, the Company adopted the name Meridian Citizens Mutual Insurance Company, and it was re-domesticated to the State

of Indiana in 2000.

On June 1, 2001, MIGI was acquired by State Automobile Mutual Insurance Company (SAM), Meridian Mutual was merged into SAM, and SAM became the Company's ultimate controlling person.

CAPITAL AND SURPLUS

The Company does not have any outstanding or authorized shares of stock as of December 31, 2008. The Company did not pay any dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

State Auto Group's distribution platform is represented by approximately 3,500 independent insurance agencies. Products are primarily personal lines oriented. Coverage includes personal and commercial automobile, homeowners, commercial multiple peril, general liability, workers' compensation and fire insurance products. The Company is licensed in eighteen (18) states, mainly in the Midwest and Eastern United States. Nearly 80% of the Company's direct business is from its farmowners multiple peril line.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company as reported during the examination period:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Capital & Surplus</u> | <u>Premiums Earned</u> | <u>Net Income (Loss)</u> |
|-------------|----------------------------|--------------------|----------------------------------|----------------------------|------------------------------|
| 2008 | \$ 25,338,924 | \$ 16,758,127 | \$ 8,580,797 | \$ 6,668,129 | \$ (428,188) |
| 2007 | 22,085,979 | 12,779,396 | 9,306,583 | 5,829,400 | 837,421 |
| 2006 | 24,849,988 | 12,397,437 | 12,452,551 | 5,907,179 | 828,200 |
| 2005 | 24,927,276 | 13,274,155 | 11,653,121 | 6,095,637 | 909,942 |
| 2004 | 23,615,453 | 13,047,983 | 10,567,470 | 5,722,838 | 487,906 |

Capital and surplus decreased \$3.1 million from 2006 to 2007. In 2007, the Company experienced a decrease in its surplus notes of \$4.0 million, which was offset by net income of \$837,000.

Net income decreased \$1.3 million from 2007 to 2008. From 2007 to 2008, total underwriting deductions increased \$1.95 million, and the Company had a net underwriting loss of \$825,000 compared to a \$284,000 underwriting gain in 2007.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of not less than five (5) and no more than nine (9) members. The shareholders, at their annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as Directors at December 31, 2008:

| <u>Name and Residence</u> | <u>Principal Occupation</u> |
|---|--|
| Mark Allen Blackburn Galena, OH | Executive Vice President, Chief Operating Officer State Automobile Mutual Insurance Company |
| Kenan Lee Schultheis Evansville, IN | Principle, Insurance Agent Schultheis Insurance Agency |
| Dennis Ray Blank Thornville, OH | Retired Executive The Wasserstrom Company |
| Robert Paul Restrepo, Jr. Columbus, OH | Chairman, Chief Executive Officer, and President State Automobile Mutual Insurance Company |
| Michael Francis Dodd Columbus, OH | Retired State Automobile Mutual Insurance Company |
| Edwin Jesse Simcox Fishers, IN | President Indiana Energy Association |
| James Edward Kunk Dublin, OH | Regional President Huntington Bank, Columbus, OH |
| Paul John Otte Westerville, OH | President Emeritus Franklin University |
| Dwight Eric Smith New Albany, OH | Chief Executive Officer Sophisticated Systems, Inc. |

Officers

The Company's Bylaws state the principal officers of the Company shall consist of a President, a Chairman of the Board, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers as the Board deems necessary. The same person may hold any two or more offices, except the President and the Secretary may not be the same person. The Board may elect or authorize the appointment of other officers as the business of the Corporation may require.

The following is a list of key officers and their respective titles as of December 31, 2008:

| <u>Name</u> | <u>Office</u> |
|---------------------------|--------------------------|
| Robert Paul Restrepo, Jr. | President |
| James Andrew Yano | Secretary |
| Cynthia Ann Powell | Treasurer |
| Mark Allen Blackburn | Executive Vice President |
| David William Dalton | Vice President |
| Clyde Howard Fitch, Jr | Senior Vice President |
| Paul Edward Nordman | Vice President |
| Mary Jean Reynolds | Vice President |
| Joel Edward Brown | Vice President |
| James Elias Duemey | Vice President |
| Steven Eugene English | Vice President |
| Steven Ray Hazelbaker | Vice President |

CONFLICT OF INTEREST

The Company maintains a Conflict of Interest policy as well as Code of Business Conduct. Officers and Directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and Directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2008.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. A signed Oath of Office for each Director serving in 2008 was reviewed without exception.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No amendments were made to the Articles of Incorporation or Bylaws during the examination period.

Minutes

The Board of Directors meeting minutes were reviewed for the period under examination and significant actions taken during each meeting was noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

An organizational chart depicting the Company's relationship with its ultimate parent and other insurance affiliates, as of December 31, 2008 is presented below.

| | |
|--|----|
| State Auto Financial Corp. Ohio Corporation | OH |
| State Automobile Mutual Insurance Company | IN |
| Meridian Insurance Group, Inc. | |
| Meridian Security Insurance Company | IN |
| Meridian Citizens Mutual Insurance Company | IN |
| Meridian Citizens Security Insurance Company | IN |

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed and not disapproved by the IDOI as required, in accordance with IC 27-1-23-4.

Management and Operations Agreement

The Company entered into an agreement with SAM, State Auto Property & Casualty Insurance Company (State Auto P&C) and certain affiliates. Under this agreement, State Auto P&C is responsible for performing all organizational, operational and management functions for each of the companies participating in the agreement. All individuals providing services to any of the managed companies are employees of State Auto P&C. In addition, SAM provides certain facilities, office equipment, and other tangible property to the managed companies as needed to conduct their respective businesses. In 2008, the Company paid fees of \$1,423,565 under this agreement.

Investment Management Agreement

The Company entered into an agreement with Stateco Financial Services, Inc. (Stateco). Under this agreement, Stateco manages the investment portfolio of the Company and in return receives an investment management fee based on performance and the size of the portfolio. In 2008, the Company paid fees of \$65,692 under this agreement.

Reinsurance Pooling Agreement

The Company entered into an agreement with SAM. Under this agreement, the Company cedes to SAM all of its insurance business and assumes 0.5% from the pool.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts made by its employees through a fidelity bond issued by Fidelity and Deposit Company of Maryland. The bond has a single loss liability of \$2,250,000 with a \$100,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by NAIC.

The Company also maintains additional types of coverage in-force at December 31, 2008 including, but not limited to, workers compensations, umbrella coverage, executive liability, fiduciary liability and building.

STATUTORY AND SPECIAL DEPOSITS

The Company reported a statutory deposit for the State of Indiana with a book value of \$1,034,568 and fair value of \$1,130,658 at December 31, 2008.

REINSURANCE

Overview of State Auto Pool

The Company is a member of the State Auto Insurance Group (the Group). Member companies of the Group, excluding State Auto National and Beacon Lloyd's, participate in a reinsurance pooling arrangement. This arrangement provides that all premiums, loss expenses, underwriting expenses, premiums in the course of collection and reinsurance recoverable on loss payments of the companies, net of reinsurance with non-affiliates, be pooled and then allocated to each company based on percentages outlined in the arrangement. Member companies of the Group, pooling percentages, and state of domicile are listed below:

| <u>Company Name</u> | <u>Percentage Share</u> |
|---|-------------------------|
| State Automobile Mutual Insurance Company (OH) | 19.0% |
| State Auto Property & Casualty Insurance Company (IA) | 59.0% |
| Milbank Insurance Company (SD) | 17.0% |
| Farmers Casualty Insurance Company (IA) | 3.0% |
| State Auto Insurance Company of Ohio (OH) | 1.0% |
| Meridian Citizens Mutual Insurance Company (IN) | 0.5% |
| Patrons Mutual Insurance Company of Connecticut (CT) | 0.4% |
| Litchfield Mutual Fire Insurance Company (CT) | 0.1% |
| State Auto Insurance Company of Wisconsin (WI) | 0.0% |
| State Auto Florida Insurance Company (IN) | 0.0% |
| Meridian Security Insurance Company (IN) | 0.0% |
| Beacon National Insurance Company (TX) | 0.0% |
| Total Combined State Auto Pool | <u>100.0%</u> |

Reinsurance assumed

The only financially significant amounts of reinsurance assumed relate to business assumed in connection with inter-company pooling arrangement.

Reinsurance ceded

Each member of the Group is party to working reinsurance treaties for property, casualty and workers compensation lines with several reinsurers arranged through a reinsurance intermediary. Under the property per risk excess of loss treaty, each member is responsible for the first \$3 million of each covered loss, and the reinsurers are responsible for 100% of the excess over \$3 million up to \$20 million of covered loss.

The terms of the casualty excess of loss program provide that each company in the Group is responsible for the first \$2 million of a covered loss. The reinsurers are responsible for 100% of the excess over \$2 million up to \$5 million of covered loss. Also, certain unusual claim situations involving bodily injury liability, property damage, uninsured motorist and personal injury protection are covered by an arrangement that provides \$10 million of coverage in excess of \$5 million retention for each loss occurrence. This layer of reinsurance sits above the \$3 million excess of \$2 million arrangement.

The terms of the workers compensation excess of loss program provide that each company in the Group is responsible for the first \$2 million of covered loss. The reinsurers are responsible for 100% of the excess over \$2 million up to \$10 million of covered loss. Net retentions under this contract may be submitted to the casualty excess of loss program, subject to a limit of \$2 million per loss occurrence.

In addition to the workers compensation reinsurance program described above, each company in the Group is party to an agreement which provides an additional layer of excess of loss reinsurance for workers compensation losses involving multiple workers. Subject to \$10 million of retention, reinsurers are responsible for 100% of the excess over \$10 million up to \$20 million of covered loss. This coverage is subject to a "Maximum Any One Life" limit of \$10 million.

In addition, the Group has secured other reinsurance to limit the net cost of large loss events for certain types of coverage. Included are umbrella liability losses which are reinsured up to a limit of \$10 million with a maximum \$600,000 retention. The Group also makes use of facultative reinsurance for unique risk situations and participates in involuntary pools and associations in certain states.

For catastrophe losses incurred by the Group traditional reinsurance coverage is maintained providing reinsurance limits of \$100 million excess of \$55 million. The reinsurance is structured in two layers, the first providing coverage of \$25 million excess of \$55 million and the second providing an additional \$75 million excess of \$80 million.

RESERVES

Matthew S. Mrozek, officer of the Company, member of the American Academy of Actuaries, examined the actuarial assumptions and methods used in determining the reserves as of December 31, 2008.

In forming his opinion on the loss and loss adjustment expense reserves, Mr. Mrozek relied upon data prepared by Kim Bailey, Shared Business Application Manager of the Company. Mr. Mrozek evaluated the data for reasonableness and consistency.

The 2008 opinion stated that the amounts carried in Exhibit A 1) meet the requirements of the insurance laws of Indiana, 2) are computed in accordance with accepted actuarial standards and principles, and 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the periods ended December 31, 2007 and 2008 were agreed to each respective Annual Statement. The Annual Statements for the years ended December 31, 2004 through December 31, 2008 were agreed to each year's statutory independent audit report with no material exceptions noted.

MERIDIAN CITIZENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

| | As of December 31, 2008 | | | December 31, Prior Year |
|---|-------------------------|----------------------------|----------------------|----------------------------|
| | Per Annual Statement | Examination Adjustments | Per Examination | |
| Assets: | | | | |
| Bonds | \$ 13,670,680 | \$ - | \$ 13,670,680 | \$ 13,957,749 |
| Stocks: | | | | |
| Common stocks | 631,680 | - | 631,680 | - |
| Cash, cash equivalents and short-term investments | 2,411,976 | - | 2,411,976 | 1,733,959 |
| Subtotals, cash and invested assets | \$ 16,714,336 | \$ - | \$ 16,714,336 | \$ 15,691,708 |
| Investment income due and accrued | 149,648 | - | 149,648 | 155,560 |
| Uncollected premiums and agents' balances in the course of collection | 739 | - | 739 | - |
| Deferred premiums, agents balances and installments but deferred and not yet due | 7,350 | - | 7,350 | 11,982 |
| Reinsurance: | | | | |
| Amounts recoverable from reinsurers | 6,336,975 | - | 6,336,975 | 4,255,399 |
| Current federal and foreign income tax recoverable | 4,649 | - | 4,649 | - |
| Net deferred tax asset | 479,071 | - | 479,071 | 463,517 |
| Guaranty funds receivable or on deposit | 10,762 | - | 10,762 | 13,758 |
| Receivables from parent, subsidiaries and affiliates | 1,635,394 | - | 1,635,394 | 1,491,542 |
| Aggregate write-ins for other than invested assets | - | - | - | 2,513 |
| Total Assets | \$ 25,338,924 | \$ - | \$ 25,338,924 | \$ 22,085,979 |

MERIDIAN CITIZENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Capital and Surplus

| | As of December 31, 2008 | | | December 31, Prior Year |
|--|-------------------------|----------------------------|----------------------|----------------------------|
| | Per Annual Statement | Examination Adjustments | Per Examination | |
| Liabilities: | | | | |
| Losses | \$ 3,809,320 | \$ - | \$ 3,809,320 | \$ 3,170,142 |
| Reinsurance payable on paid losses and loss adjustment expenses | 1,158,901 | - | 1,158,901 | 810,918 |
| Loss adjustment expenses | 880,831 | - | 880,831 | 760,129 |
| Commissions payable, contingent commissions and other similar charges | 319,591 | - | 319,591 | 523,078 |
| Taxes, licenses and fees | 167,108 | - | 167,108 | 91,737 |
| Current federal and foreign income taxes | - | - | - | 1,020 |
| Unearned premiums | 3,103,852 | - | 3,103,852 | 2,613,440 |
| Ceded reinsurance premiums payable | 6,890,335 | - | 6,890,335 | 4,742,068 |
| Amounts withheld or retained by company for account of others | 28,886 | - | 28,886 | 36,964 |
| Provision for reinsurance | 382,151 | - | 382,151 | 11,692 |
| Payable to parent, subsidiaries and affiliates | 16,536 | - | 16,536 | 15,542 |
| Aggregate write-ins for liabilities | 616 | - | 616 | 2,666 |
| Total liabilities | \$ 16,758,127 | \$ - | \$ 16,758,127 | \$ 12,779,396 |
| Unassigned funds (surplus) | \$ 8,580,797 | \$ - | \$ 8,580,797 | \$ 9,306,583 |
| Total capital and surplus | \$ 8,580,797 | \$ - | \$ 8,580,797 | \$ 9,306,583 |
| Total liabilities, capital and surplus | \$ 25,338,924 | \$ - | \$ 25,338,924 | \$ 22,085,979 |

MERIDIAN CITIZENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

| | As of December 31, 2008 | | | December 31, Prior Year |
|---|-------------------------|---------------------|-----------------|----------------------------|
| | Per Annual Statement | Exam Adjustments | Per Examination | |
| Premiums earned | \$ 6,668,129 | \$ - | \$ 6,668,129 | \$ 5,829,400 |
| Losses incurred | \$ 4,284,097 | \$ - | \$ 4,284,097 | \$ 2,893,220 |
| Loss expenses incurred | 782,269 | - | 782,269 | 595,908 |
| Other underwriting expenses incurred | 2,427,308 | - | 2,427,308 | 2,056,444 |
| Aggregate write ins for underwriting deductions | (985) | - | (985) | 100 |
| Total underwriting deductions | \$ 7,492,689 | \$ - | \$ 7,492,689 | \$ 5,545,672 |
| Net underwriting gain (loss) | \$ (824,560) | \$ - | \$ (824,560) | \$ 283,728 |
| Net investment income earned | \$ 592,699 | \$ - | \$ 592,699 | \$ 532,830 |
| Net realized capital gains (losses) | (207,708) | - | (207,708) | 14,010 |
| Net investment gain (loss) | \$ 384,991 | \$ - | \$ 384,991 | \$ 546,840 |
| Net gain (loss) from agents' or premium balances charged off | \$ (12,847) | \$ - | \$ (12,847) | \$ (6,392) |
| Finance and service charges not included in premiums | 23,978 | - | 23,978 | 21,274 |
| Aggregate write ins for miscellaneous income | (132) | - | (132) | 984 |
| Total other income | \$ 10,999 | \$ - | \$ 10,999 | \$ 15,866 |
| Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ (428,570) | \$ - | \$ (428,570) | \$ 846,434 |
| Dividends to policyholders | 1,787 | - | 1,787 | 1,695 |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ (430,357) | \$ - | \$ (430,357) | \$ 844,739 |
| Federal and foreign income taxes incurred | (2,169) | - | (2,169) | 7,318 |
| Net Income | \$ (428,188) | \$ - | \$ (428,188) | \$ 837,421 |
| Capital and Surplus Account: | | | | |
| Surplus as regards policyholders, December 31 prior year | \$ 9,306,583 | \$ - | \$ 9,306,583 | \$ 12,452,551 |
| Net income | \$ (428,188) | \$ - | \$ (428,188) | \$ 837,421 |
| Change in net unrealized capital gains or (losses) | 36,915 | - | 36,915 | - |
| Change in net deferred income tax | 251,005 | - | 251,005 | (163,928) |
| Change in nonadmitted assets | (215,059) | - | (215,059) | 187,346 |
| Change in provision for reinsurance | (370,459) | - | (370,459) | (6,807) |
| Change in surplus notes | - | - | - | (4,000,000) |
| Change in surplus as regards policyholders for the year | \$ (725,786) | \$ - | \$ (725,786) | \$ (3,145,968) |
| Surplus as regards policyholders, December 31 current year | \$ 8,580,797 | \$ - | \$ 8,580,797 | \$ 9,306,583 |

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

SUBSEQUENT EVENTS

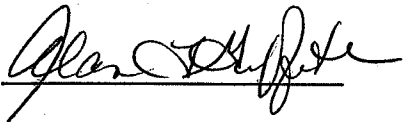
There were no events subsequent to the examination and prior to the completion of fieldwork that would be considered a material event requiring disclosure.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding report of examination of Meridian Citizens Mutual Insurance Company as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, James Ryan, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of Meridian Citizens Mutual Insurance Company.

A handwritten signature in dark ink, appearing to read "Alan T. Griffith", is written over a horizontal line.

Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance